

Message Text

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ORIGIN PM-07

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DOD/DSAA - MR. OXMAN

EA/IMS - MR. GILL

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FM SECSTATE WASHDC

TO AMEMBASSY KUALA LUMPUR

INFO CINCPAC HONOLULU HI

C O N F I D E N T I A L STATE 035902

E.O. 11652: GDS

TAGS: MASS, MY

SUBJECT: FY 1974 FMS CREDIT FOR GOVERNMENT OF MALAYSIA

REFERENCE: MEMORANDUM OF UNDERSTANDING (MOU) BETWEEN THE
GOVERNMENT OF MALAYSIA AND THE GOVERNMENT OF THE UNITED
STATES OF AMERICA RELATING TO THE ACQUISITION OF F-5B AND
F-5E AIRCRAFT.

1. ANNEX A, REF MOU INDICATES USG WILL, SUBJECT TO AVAIL-
ABILITY OF FUNDS AND CONTINUANCE OF LEGISLATIVE AUTHORITY,
MAKE 18,750,000 DOLLARS FMS CREDIT AVAILABLE TO GOM DURING
FY 1974 TO ASSIST IN FINANCING GOM PROCUREMENT OF TWO F-5B
AIRCRAFT AND FOURTEEN F-5E AIRCRAFT FROM SOURCES IN UNITED
STATES. PARA 1D OF MOU STATES THAT "THE RATE OF INTEREST
OF SUCH CREDIT WILL BE THE PREVAILING COST OF MONEY TO
THE GOVERNMENT OF THE UNITED STATES AS DETERMINED BY THE
GOVERNMENT OF THE UNITED STATES AT THE TIME EACH CREDIT
AGREEMENT IS SIGNED." PARA 1F MOU STATES THAT "IN THE
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EVENT FOREIGN MILITARY SALES CREDIT FUNDS DO NOT BECOME

AVAILABLE IN ACCORDANCE WITH THE SCHEDULE IN ANNEX A, THE GOVERNMENT OF MALAYSIA AGREES TO OBTAIN THE FINANCING FROM OTHER SOURCES."

2. FY 1974 SECURITY ASSISTANCE LEGISLATION AUTHORIZES A FMS CREDIT PROGRAM OF 730 MILLION DOLLARS OF DIRECT CREDIT AND GUARANTEES BUT APPROPRIATES ONLY 325 MILLION DOLLARS TO CARRY OUT THE PROGRAM. OF THE 730 MILLION DOLLARS

PROGRAM LEVEL, 300 MILLION DOLLARS IS DESIGNATED FOR ISRAEL, AND ADDITIONAL FUNDS ARE EARMARKED FOR CONTRACTUAL MULTI-YEAR COMMITMENTS TO NUMBER OF COUNTRIES INCLUDING MALAYSIA. THEREFORE, BECAUSE OF LIMITED FUNDS WE MUST MAKE MAXIMUM USE OF CREDIT GUARANTEE AUTHORITY TO MEET OUR FMS OBLIGATIONS INCLUDING THE 18.75 MILLION DOLLARS CREDIT FOR GOM.

3. IN VIEW OF ABOVE, MAXIMUM AMOUNT OF FY 74 APPROPRIATED FUNDS WE CAN ALLOCATE FOR GOM IS APPROXIMATELY 10 MILLION DOLLARS. GOM MAY AT ITS OPTION UTILIZE THESE FUNDS FOR A COMBINATION OF FMS DIRECT CREDITS AND USG GUARANTEED CREDITS TOTALING 18.75 MILLION DOLLARS, OR TAKE THE TOTAL 10 MILLION DOLLARS AS DIRECT CREDIT. UNDER EITHER OPTION INTEREST COST TO GOM WOULD BE COST OF MONEY TO USG; FOR FEBRUARY THIS IS 6.875 PERCENT.

4. UNDER THE FIRST OPTION IN PARAGRAPH 3 ABOVE, THE USG WOULD AGREE TO PROVIDE ENTIRE 18.75 MILLION DOLLARS AT FIXED INTEREST RATE EQUAL TO COST OF MONEY TO THE USG (I.E. THE SAME AS DIRECT CREDIT), AND GOM WOULD AGREE TO PERMIT USG TO SELL PARTICIPATION IN CREDIT. USG THEN WOULD FIND LENDER TO ACCEPT APPROXIMATELY HALF OF CREDIT. WHILE INTEREST RATE ON PRIVATE PORTION WOULD BE GREATER THAN USG COST OF MONEY, WE WOULD REDUCE INTEREST ON DIRECT PORTION OF PACKAGE AND GOM WOULD PAY ONLY COST OF MONEY INTEREST RATE ON TOTAL BALANCE OUTSTANDING. USG WOULD FIND LENDER THROUGH TREASURY DEPARTMENT AUCTION PROCEDURE BY WHICH USG CIRCULARIZES BANKS FOR BIDS ON LOANS. TO DATE, THIS PROCEDURE HAS BEEN QUITE SUCCESSFUL AND WE WOULD ANTICIPATE NO PROBLEM IN FINDING TAKERS FOR GOM LOAN.
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5. THERE WOULD BE TWO RELATIVELY MINOR COSTS INVOLVED IN THIS MIXED FINANCING. THESE ARE A GUARANTY FEE TO COVER THE GUARANTY ON THE PRIVATE CREDIT AND A COMMITMENT FEE WHICH IS CHARGED ON THE UNUTILIZED BALANCE OF THE PRIVATE CREDIT DURING THE TIME IT IS AVAILABLE BUT NOT DRAWN. THE GUARANTEE FEE IS 1/4 OF 1 PERCENT ON THE PRIVATE LOAN AMOUNT. THE COMMITMENT FEE WOULD BE 1/4 OF 1 PERCENT PER

ANNUUM ON THE UNUTILIZED BALANCE. IF THE PRIVATE CREDIT IS 9,375,000 DOLLARS, THE GUARANTY FEE WILL BE 23,437 DOLLARS AND THE COMMITMENT FEE WOULD BE ABOUT 6.85 DOLLARS PER MILLION DOLLARS PER DAY ON THE UNUTILIZED BALANCE. BOTH OF THESE FEES WOULD BE PAID FROM GOM RESOURCES.

6. UNDER THE SECOND OPTION IN PARAGRAPH 3, GOM WOULD RECEIVE 10 MILLION DOLLARS DIRECT FMS CREDIT AT INTEREST RATE EQUAL TO COST OF MONEY TO USG. GOM WOULD THEN HAVE TO ASSUME RESPONSIBILITY FOR OBTAINING ADDITIONAL 8.75 MILLION DOLLARS FROM PRIVATE SOURCES IN ACCORDANCE WITH PARAGRAPH 1F OF MOU AND WITHOUT USG GUARANTY. UNDER EITHER OPTION, WE WILL CONSIDER USG TO HAVE FULFILLED ITS COMMITMENT FOR FY 74 TRANCHE OF CREDIT UNDER THE REFERENCED MOU.

7. REQUEST YOU DISCUSS THESE OPTIONS WITH APPROPRIATE GOM OFFICIALS TO DETERMINE WHICH THEY PREFER. IN THESE DISCUSSIONS YOU MAY STRESS THAT:

(A) LACK OF APPROPRIATED FUNDS FOR FMS PROGRAM PRECLUDES OUR ALLOCATING MORE THAN APPROXIMATELY 10 MILLION DOLLARS FOR GOM CREDIT.

(B) EXCEPT FOR GUARANTY FEE AND COMMITMENT FEE GOM WOULD NOT PAY HIGHER INTEREST RATE FOR COMBINED PACKAGE THAN COST OF MONEY TO USG.

(C) TREASURY AUCTION PROCEDURE WILL ASSIST GOM IN OBTAINING BIDS FROM PRIVATE BANKS FOR GUARANTEED CREDIT.

(D) USG WILL CONSIDER ITS OBLIGATION UNDER 1972 MOU FOR FY 1974 CREDIT TO BE FULFILLED BY EITHER OPTION. RUSH

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